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April 21, 2006

**Comments on Part 715 Advance Notice of Proposed Rulemaking,  
Supervisory Committee Audits.**

**1. Should part 715 require, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting above certain minimum asset size threshold? Explain why or why not.**

*Internal control attestation is not needed in credit unions, but providing greater expectations over what comprises effective oversight is. Even in light of the few examples of credit union failures, companies with strong, effective controls and duty to ethics are less likely to face reputation damage, incur losses, or suffer failure. However, more sensible guidance needs to be put into place than now exists with Sarbanes Oxley.*

*The IIA Research foundation in 2005 performed a survey to ask organizations obliged to comply with Sarbanes Oxley internal control attestation requirements, to identify control improvements that resulted from their compliance efforts. Companies felt the mandate helped them learn a great deal about their financial processes, practices, policies and procedures and stated their companies showed “A more engaged control environments, with active participations by the board, the audit committee and management”. Also, the survey respondents stated that those improvements would not have occurred if they hadn’t been required.*

*In 2006 CFO magazine conducted a survey of finance executives about their Sarbanes Oxley internal control attestation compliance. Their consensus found that while most executives’ felt there were benefits to internal control attestation, the costs outweighed their value. The majority of managers questioned the worth of identifying and monitoring internal controls; the requirements don’t focus on high risk areas and documentation requirements are onerous and unclear. Seventy five percent of the respondents to the survey would like to see the internal control provisions revised or repealed.*

*History has shown that self regulation doesn’t always work and it’s always after calamity happens that a regulation is put into place to fix the problem. Regulations are seen as a means of governance to get those who aren’t doing the right thing, to do the right thing. If it’s legislated it gets peoples attention.*

*Is internal control attestation regulation the answer to making credit unions better managed? There are organizations that have poor internal control environments, yet experience no loss. Failures do occur, but with relative infrequency. On the other hand, there are organizations with lots of written internal control policies and procedures who still go out of business due to corrupt practices.*

*Instead of mandating control attestation, regulators should look at a credit union's overall control processes. Have credit unions implemented processes to identify control deficiencies, monitor the effectiveness of controls and take corrective action? Are controls visible and understood? How are risks recognized, prioritized and managed? What is the culture of the organization or tone at the top? Can management and the board of directors demonstrate a commitment to ethics that are communicated throughout the organization? Is ethics a business strategy? An organization that fosters a strong ethical culture will by extension have better controls.*

**2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.**

*If the "attestation of internal controls" is a must, the threshold should be \$1,000,000,000. Currently credit unions over \$500,000,000 are required to complete annual audits because the larger credit unions tend to bring more risk to the share insurance fund. Once the CU reaches one billion in assets, it would seem prudent to put another level of safety in for the share insurance fund. In addition to a size threshold, a net worth threshold should also be used. If a credit union is well capitalized, the risk to the share insurance fund should be negligible, thus only credit unions over one billions in assets and not well capitalized should be included.*

*It's hard to justify that a smaller credit union is less susceptible to the things that control attestation is intended to fix. If the objective of the requirement is to make credit unions better managed; do giving smaller credit unions a pass due to cost make any sense? Just because you can afford it should not be a reason to require it. Many smaller credit unions are better capitalized than larger financials. Good internal controls and reliable financial reporting should be prevalent in all credit unions. However, as mentioned above, attestation should not be the fix.*

**3. Should the minimum asset size threshold for requiring an “attestation on internal controls” over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.**

*No, if the intent of attestation is to provide better-controlled businesses that are less likely to fail and suffer losses and provide reliable financial information, then*

*whether you are a natural person or corporate credit union should not be a consideration.*

**4. Should management's assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?**

*If attestation is meant to address fraudulent financial reporting, there shouldn't be a distinction between the call report and GAAP financial statements.*

**5. Should the same auditor be permitted to perform both the financial statement audit and the "attestation on internal controls" over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the "attestation on internal controls?" Explain the reasons for your answer.**

*One auditor should suffice to perform the attestation and financial statement audit and credit unions should also have the option to rely on the work of internal audit staff to perform the internal control attestation.*

**6. If an "attestation on internal controls" were required of credit unions, should it be required annually or less frequently? Why?**

*Since the resources and cost to implement the requirements would be great, it should only be required every three years. The financial impact on the CU industry must be considered, we must weigh the cost of these audits against the risk/benefit. Adding the costs of these audits along with the costs of other compliance/security initiatives could continue to erode the financial strengths of these credit unions.*

**7. If an "attestation on internal controls" were required of credit unions, when should the requirement become effective (i.e., in the fiscal period beginning after December 15 of what year)?**

*The requirement should become effective for the fiscal period ending after December, 15, 2010. This would give the audit industry time to establish some standards that would make the audits useful, efficient and consistent between firms.*

**8. If credit unions were required to obtain an "attestation on internal controls," should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB's AS 2 standard that applies to public companies, or to the AICPA's revised AT**

**501 standard that applies to non-public companies? Please explain your preference.**

*The PCAOB standards were established for publicly held companies, thus the AICPA is more appropriate. They would be more closely related to credit unions issues and practices.*

**9. Should NCUA mandate COSO's *Internal Control – Integrated Framework* as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own standard?**

*A framework needs to be established. Without an internal control framework that shares a common language, definition and direction, inconsistencies and contradictions will occur in risk and control.*

*COSO is a broad model that applies to all parts of an organization. It was designed to provide a structure that addresses efficiency, asset loss, compliance with law and regulations and reliable financial statements. In lieu of any other recognized framework, NCUA would need to establish standards of their own for credit unions.*

*The Committee of Sponsoring Organizations of the Treadway Commission is in the process of developing practical guidance for smaller business that should aid in this process.*

**10. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have a minimum level of experience or expertise in credit union, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be?**

*Yes. The members should either have sufficient education or experience in finance/accounting/business or be employed in an accounting related field. Other credentials that should be required of audit committee members include integrity, propensity to learn, commitment, and awareness of responsibilities.*

**11. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, at what minimum asset size threshold?**

*No, the Supervisory committee should not be "required" but should have the option to access outside counsel regardless of asset size.*

**12. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?**

*No. Some of the best candidates could come from either a SEG or Membership base. We believe that they would comprise only one of the members of the committee and therefore would not have control over the committee.*

*A better requirement could be a strong conflict of interest policy that included disclosures for any relationships that could potentially pose a problem.*

**13. If any of the qualifications addressed in questions 10, 11 and 12 above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each qualification.**

*It is always difficult to recruit qualified volunteers but our credit union always seem to find qualified and dedicated people in our field of membership.*

**14. Should a State-licensed, compensated auditor who performs a financial statement audit and/or “internal control attestation” be required to meet just the AICPA’s “independence” standards, or should they be required to also meet SEC’s “independence” requirements and interpretations? If not both, why not?**

*SEC’s rules that are more restrictive than AICPA standards include CPA partner rotation, the cooling-off period when a CPA firm employee accepts a position with a client, and consulting work performed by the financial statement auditor. With the exception of partner rotation which may be difficult in certain communities, the SEC’s requirements would protect auditor independence both in fact and appearance and should not be difficult for credit unions to put into place.*

**15. Is there value in retaining the “balance sheet audit” in existing §715.7(a) as an audit option for credit unions with less than \$500 million in assets?**

*A balance sheet audit does not address the fairness of the presentation of the credit union’s income statement, statement of changes in equity or statement of cash flows and thus should not be allowed for credit unions greater than \$100 million in assets.*

**16. Is there value in retaining the “Supervisory Committee Guide audit” in existing §715.7(c) as an audit option for credit unions with less than \$500 million in assets?**

*This should be an option for credit unions with less than \$100 million in assets.*

**17. Should part 715 require credit unions that obtain a financial statement audit and/or an “attestation on internal controls” (whether as required or voluntarily) to forward a copy of the auditor’s report to NCUA? If so, how soon after the audit period-end? If not, why not?**

*There is no need to forward the financial statement audit or attestation to NCUA. The audit is reviewed during the normal exam cycle. By forwarding to NCUA, the operational expense of the regulator would simply increase and not give any additional safety and soundness protection.*

**18. Should part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union? If so, how soon after the credit union receives it? If not, why not?**

*There is no need to forward the financial statement audit or attestation to NCUA. The audit is reviewed during the normal exam cycle. By forwarding to NCUA, the operational expense of the regulator would simply increase and not give any additional safety and soundness protection.*

**19. If credit unions were required to forward external auditors’ reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?**

*Absolutely.*

**20. Existing part 715 requires a credit union’s engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?**

*The target date should be extended to six months. This still ensures the timely delivery of the audit report and enables credit unions to take advantage of any CPA firm discounts for engagement work performed outside their busy season. The cost to the CU industry could be reduced if the audit did not have to run parallel with the IRS tax filing season.*

**21. Should part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor’s dismissal or resignation? If so in cases**

**of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?**

*No, NCUA should inquire about the credit union's relationship with their current and prior financial statement auditors during their on-site examination, but it should not be written notification requirement.*

**22. NCUA recently joined in the final *Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters*, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?**

*Yes, supervisory Committees should be prohibited from limiting auditor liability and waiving punitive damages liability.*

*The issue is that if accounting firms are allowed to limit their liability, their costs to perform the external audit will be less. The advisory states that it is not "unsafe or unsound" to waive "punitive" damages, provided the accounting firm remain liable for actual damages.*

*Would auditors do a more thorough job without the limit or would audit quality be reduced because auditor liability is limited? Would credit unions who agree to liability limits really pay less for an audit? Would audit risk on the engagement decrease if limits were not established?*

*Credit unions engage CPA firms to do express a professional opinion on our financial statements. The proposal is a reaction to the actions of dishonest and incompetent auditors. Just like credit union professionals incur legal liability managing the organization, accounting professionals should do the same. Accounting firms should not be relieved of their professional responsibilities.*